

**REPORT ON EXAMINATION**  
**OF THE**  
**THE TOA REINSURANCE COMPANY OF AMERICA**  
**AS OF**  
**DECEMBER 31, 2006**

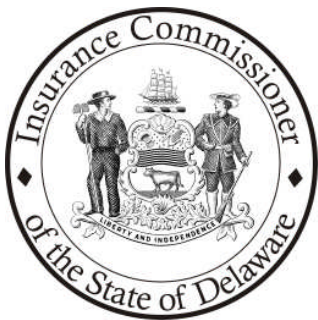
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

**THE TOA REINSURANCE COMPANY OF AMERICA**

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

DATE: 25 MARCH 2008



*In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 25TH DAY OF MARCH 2008.*

*Matthew Denn*

*Insurance Commissioner*

**REPORT ON EXAMINATION**  
**OF THE**  
**THE TOA REINSURANCE COMPANY OF AMERICA**  
**AS OF**  
**December 31, 2006**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", is written over a horizontal line.

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 25TH Day of MARCH 2008.

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**SALUTATION**

January 4, 2008

Honorable Alfred W. Gross  
Chairman – NAIC Financial Condition  
(E) Committee  
State Corporation Committee  
P.O. Box 1157  
Richmond, VA 23218

Honorable Merle D. Scheiber  
Secretary, Midwestern Zone (III), NAIC  
South Dakota Division of Insurance  
Department of Revenue and Regulation  
445 East Capitol Avenue  
Pierre, SD 57501-3185

Honorable Thomas E. Hampton  
Secretary, Northeastern Zone (I), NAIC  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street N.E., Suite 701  
Washington, DC 20002-4227

Honorable Kent Michie  
Secretary, Western Zone (IV), NAIC  
Utah Department of Insurance  
3110 State Office Building  
Salt Lake City, UT 84114-1201

Honorable Julie Mix McPeak  
Secretary, Southeastern Zone (II), NAIC  
Office of Insurance  
Commonwealth of Kentucky  
P.O. Box 517  
Frankfort, KY 40602-0517

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, DE 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 07.008, dated November 6, 2006, an examination has been made of the affairs, financial condition and management of the

**THE TOA REINSURANCE COMPANY OF AMERICA**

hereinafter referred to as “Company” or “Toa Re” and incorporated under the laws of the State of Delaware. This examination was conducted at the principal offices of the Company, located at 177 Madison Avenue, Morristown, New Jersey 07962-1930. The report of examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

The last filed examination of the Company was conducted by the Delaware Department of Insurance as of December 31, 2003. This examination covers the period January 1, 2004, through December 31, 2006, and consisted of a general survey of the Company's business practices and policies; management, any corporate matters thereto; a verification and evaluation of assets and a determination of liabilities. Transactions and events subsequent to the latter date were reviewed and have been commented upon throughout the examination report.

This report is presented on an exception basis. It is designed to set forth the facts with regards to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and /or officials during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by the Delaware Insurance Department under Delaware Insurance Code Section 526, and generally accepted statutory insurance examination standards.

In addition to the noted items of this report, the following topics were reviewed and are included in the workpapers of this examination. No material exceptions or errors were noted during the review of these items:

- Corporate Records
- Conflict of Interest
- Fidelity Bond and Other Corporate Insurance
- Dividends to Stockholders
- All Assets and Liability Items Not Mentioned
- Subsequent Events

The examination was conducted by the Delaware Department of Insurance in accordance with Association Examination Guidelines established by the NAIC. The Company was not eligible for zone participation.

Workpapers prepared by the Company's external accounting firm, PricewaterhouseCoopers ("PwC") LLP, New York, New York, in connection with the annual audit, were reviewed and relied upon to the extent possible.

### **DESCRIPTION OF COMPANY**

#### **History**

The Company was originally incorporated and started operations as the U.S. subsidiary of Toa Fire and Marine Reinsurance Company, Limited ("Toa Japan"), Tokyo, Japan. On October 15, 1982, the title, The Toa-Re Insurance Company of America, was adopted.

On December 31, 1997, Toa Japan acquired The Mercantile and General Reinsurance Company of America ("M&G America") and its wholly-owned subsidiary, Mercantile and General Services, Inc., ("M&G Services"). The name of M&G Services was changed to Toa Re Services, Inc. ("Toa Re Services") effective December 1998. M&G America was then merged with The Toa-Re Insurance Company of America. Pursuant to Delaware Insurance Code Section 4943 and an Agreement and Plan of Merger, the original date of incorporation for the surviving company was deemed March 13, 1922, the original date of incorporation of M&G America. There was no activity in Toa Re Services for the three years under examination.

On April 22, 1999, the Company's name was changed from The Toa-Re Insurance Company of America to The Toa Reinsurance Company of America and the parent's name was changed from Toa Fire and Marine Reinsurance Company, Limited, to The Toa Reinsurance Company, Limited.

## Capitalization

As of December 31, 2006, authorized capital stock consisted of 400 shares of common stock with a par value of \$10,000 per share. All authorized shares are issued and outstanding and held by Toa Japan.

The following changes have occurred in the Company's capital and surplus accounts since the prior examination:

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
12/31/2003	\$ 4,000,000	\$ 181,352,611	\$ 121,324,259	\$ 306,676,870
2004 Operations (1)			29,360,429	29,360,429
2005 Operations (2)			10,106,191	10,106,191
2006 Operations (3)			64,455,771	64,455,771
Capital changes:				
Surplus adjustments:				
Dividends:				
2004 (4)			(6,000,000)	(6,000,000)
12/31/2006	<u>\$ 4,000,000</u>	<u>\$ 181,352,611</u>	<u>\$ 219,246,650</u>	<u>\$ 404,599,261</u>

(1)(2)(3) Operations is defined as: Net income, net unrealized capital gains or (losses), change in non-admitted assets, change in foreign exchange adjustment, change in provision for reinsurance, change in excess of statutory reserves over statement reserves, extraordinary amounts of taxes for prior years, and aggregate write-ins for gains and losses in surplus.

(4) Ordinary dividend paid to stockholders.

## Dividends to Stockholders

According to Company records for the years indicated, and as reflected in minutes to the Board of Directors' meetings, a cash dividend of \$6,000,000 was paid to the sole stockholder in 2004 which was approved by the Delaware Insurance Department.



## **INSURANCE HOLDING COMPANY SYSTEM**

The Company is a member of a holding company system known as The Toa Re Group and is subject to the registration requirements of Chapter 50, of the Delaware Insurance Code. The ultimate controlling entity of the group is Toa Japan, a reinsurer domiciled in Japan. The Parent was established in 1940 and is based in Tokyo with representative offices, subsidiaries or branch offices in Hong Kong, Kuala Lumpur, London, Singapore, Switzerland, Taipei, Toronto and New Jersey. As of March 31, 2006, (fiscal year-end) the parent had total assets of \$5.194 billion and shareholders' equity of \$1.585 billion. Toa Japan is owned by a majority of the Japanese non-life insurers as well as other major Japanese financial institutions. An organizational chart listing the Insurance Holding Company System as of December 31, 2006, is as follows:

### **TOA RE CORPORATION HOLDING COMPANY CHART**

*(As of 12/31/2006)*

Name	Nature of Business Owned	Jurisdiction of Corporation	Percentage
The Toa Reinsurance Company, Ltd	Holding company	Japan	N/A
The Toa Reinsurance Company of America	Reinsurer	DE	100%
Toa Re Services, Inc.	Management	NY	100%
The Toa 21 <sup>st</sup> Century Reinsurance Company, Ltd.	Reinsurer	Switzerland	100%
Asia Security Reinsurance Agency Ltd.	Agency	Hong Kong	100%

## **MANAGEMENT AND CONTROL**

The ultimate controlling entity of the insurance holding company system is Toa Japan. The Company's bylaws, as amended to date, state that the affairs, operations and management of the Company shall be governed by its Board of Directors consisting of not less than seven (7)

directors nor more than seventeen (17) directors. As of the examination date, the Company had nine (9) directors. The directors are elected at the annual meeting of the stockholder and each director is elected to serve until his successor is elected.

The Board of Directors is charged to meet annually, immediately following the annual meeting of the stockholder. Special meetings of the Board may be called by the Chairman of the Board, CEO, Secretary, or by the written request of any two members of the board. Quorum is established when one-third of the total number of directors, but not less than four directors, are present for the disposition of business.

Directors serving as of December 31, 2006, were as follows:

<u>Name</u>	<u>Primary Occupation</u>
Yasushi Enomoto Tokyo, Japan	Chief Executive Officer – Hong Kong branch Toa Reinsurance Company, Ltd.
Hiroshi Fukushima Tokyo, Japan	Managing Director, International Department Toa Reinsurance Company, Ltd.
John J. Hayden Morristown, NJ	Senior Vice President, General Counsel and Secretary Toa Reinsurance Company of America
Tetsuro Kanda Tokyo, Japan	Chief Representative – Toa Re America Toa Reinsurance Company, Ltd.
Teruhiko Ohtani Tokyo, Japan	President and Chief Executive Toa Reinsurance Company, Ltd.
James A. Pilla Morristown, NJ	Executive Vice President - Underwriting Toa Reinsurance Company of America
George T. Van Gilder Morristown, NJ	Chief Executive Officer Toa Reinsurance Company of America
Nathaniel B. Wallman Morristown, NJ	Senior Vice President and Chief Financial Officer Toa Reinsurance Company of America
Shinya Yoshikoshi, Chairman Tokyo, Japan	Senior Advisor Toa Reinsurance Company, Ltd.

In accordance with its bylaws, officers serving the Company shall be a Chief Executive Officer, a Chief Financial Officer and a Secretary. The Board may also elect a Chairman, a President, a Treasurer and one or more Vice-Presidents as necessary.

The following officers had been elected by the Board of Directors and were serving at December 31, 2006:

Chief Executive Officer	George T. Van Gilder
Senior Vice President, Secretary & General Counsel	John J. Hayden
Senior Vice President & Chief Financial Officer	Nathaniel B. Wallman
Senior Vice President, Chief Agent	David E. Wilmot
Senior Vice President, International Development	Tetsuro Kanda
Executive Vice President	James A. Pilla

The Board of Directors had one committee in place as of December 31, 2006. The Conflict of Interest Committee constituted by George T. Van Gilder and Tetsuro Kanda.

The minutes of the meetings of the Stockholder and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of Directors and Officers and approval of investment transactions were also noted.

Inspection of Company files indicated that conflict of interest affidavits were completed and returned by all directors and senior officers of the Company for each year under examination. No material conflicts of interest were noted for the years under examination.

### **MANAGEMENT AND SERVICE AGREEMENTS**

The Company participated in no management, service or tax sharing agreements with affiliates for the period under examination.

#### **Custodian Agreement – Brown Brothers Harriman**

The Company entered into a Custodian Agreement with Brown Brothers Harriman & Co., L.P. (“BBH”), a New York Limited Liability Company, effective February 2, 2005.

Pursuant to the agreement, BBH acts as the custodian for the Company's portfolio of investment securities. As of the examination date, BBH held long-term bonds and common stocks with market values of \$730,719,754 and \$235,301,970, respectively, and book values of \$733,327,163 and \$235,301,970, respectively. Custodian fees incurred by the Company pursuant to this agreement during 2006 were \$86,113. This agreement contained those safeguard provisions required by the NAIC and adopted by Delaware statutes and provisions. This custodian agreement replaced an earlier agreement with BBH from 2002.

Management and Agency Agreement - Cushman & Wakefield, Inc.

The Company participates in a Management and Agency Agreement with Cushman & Wakefield, Inc. ("Cushman & Wakefield"), who maintains an office at 51 West 52<sup>nd</sup> Street, New York, NY. The agreement acknowledges that the Company appoints Cushman & Wakefield to act as sole agent for the management of the principal offices of the Company located at 177 Madison Avenue, Morristown, New Jersey. The Company paid Cushman & Wakefield a flat annual fee of \$32,365 in 2006 for management of the building.

Investment Advisory Agreement – William Blair & Company, L.L.C.

The Company entered into an Investment Advisory Agreement with William Blair & Company, L.L.C. ("William Blair"), a Delaware Limited Liability Company, effective March 10, 1999. Pursuant to the agreement, William Blair acts as an investment manager for the Company and manages a portfolio of investment securities held by custodian Brown Brothers Harriman in accordance with the investment guidelines established by the Company. As of the examination date, William Blair managed long-term bonds and common stocks with market values of \$222,694,989 and \$122,080,115, respectively, and book values of \$223,385,448 and

\$122,080,115, respectively. Investment advisory fees incurred by the Company pursuant to this agreement during 2006 were \$1,098,453.

Investment Advisory Agreement – Western Asset Management (formerly Citibank)

The Company entered into an Investment Advisory Agreement with Citibank, N.A. (now “Western Asset Management”), a Delaware Company, effective September 23, 1998. Pursuant to the agreement, Western Asset Management acts as an investment manager for the Company and manages a portfolio of investment securities held by custodian Brown Brothers Harriman in accordance with the investment guidelines established by the Company. As of the examination date, Western Asset Management managed long-term bonds with a market value and book value of \$164,950,082 and \$162,899,673, respectively. Investment advisory fees incurred by the Company pursuant to this agreement during 2006 were \$350,195.

Investment Advisory Agreement – Gabelli Asset Management Company

The Company entered into an Investment Advisory Agreement with Gabelli Asset Management Company (“GAMCO”), a Delaware Company, effective November 13, 2002. Pursuant to the agreement, GAMCO acts as an investment manager for the Company and manages a portfolio of investment securities held by custodian Brown Brothers Harriman in accordance with the investment guidelines established by the Company. As of the examination date, GAMCO managed common stocks with a market value and book value of \$113,221,855. Investment advisory fees incurred by the Company pursuant to this agreement during 2006 were \$570,129.

Investment Advisory Agreement – Weiss, Peck & Greer

The Company entered into an Investment Advisory Agreement with Weiss, Peck & Greer Investments (“WPG”), a division of Robeco USA L.L.C., a Delaware Limited Liability

Company, effective March 3, 2004. Pursuant to the agreement, WPG acts as an investment manager for the Company and manages a portfolio of investment securities held by custodian Brown Brothers Harriman in accordance with the investment guidelines established by the Company. As of the examination date, WPG managed long-term bonds with a market value and book value of \$216,647,637 and \$219,985,075, respectively. Investment advisory fees incurred by the Company pursuant to this agreement during 2006 were \$318,892.

### **TERRITORY AND PLAN OF OPERATION**

Toa Re operates as a treaty (90%) and facultative (10%) reinsurer primarily engaged in the underwriting of casualty and general property through numerous unaffiliated reinsurance brokers. The Company assumes business from insurance and reinsurance companies domiciled in the United States and abroad, which meet certain financial and underwriting criteria established by the Company. As of year-end 2006, the classes of business on a net basis were split as follows:

Casualty	34.5%
Property	8.9%
Property and Casualty Combined	9.5%
All Other Lines	0.6%
Non-Proportional Reinsurance	46.5%

The Company has certificates of authority to write business in twenty-four states and the District of Columbia and meets the standards as an approved reinsurer in the remaining twenty-six states and is recognized as an approved reinsurer by the U.S. Treasury. The Company maintains a Canadian branch located in Toronto, Ontario, which is licensed in Canada by the Office of the Superintendent of Financial Institutions (OSFI) and by the Province of Ontario to write property and casualty reinsurance.

The principal office facilities of the Company are located in Morristown, New Jersey and are supplemented by branch operations in Toronto. The Canadian branch contributed approximately \$50 million USD in assumed written premiums in 2006, or 15.2% of the Company's 2006 total assumed written premiums.

As of the examination date, the Company had a group rating of “A” (*Excellent*) from A.M. Best and “A+” (*Strong*) from Standard and Poor's.

### **REINSURANCE**

For 2006, the Company reported the following distribution of net premiums written:

Reinsurance assumed from affiliates	\$ 0
Reinsurance assumed from non-affiliates	<u>337,671,353</u>
Total assumed	\$ 337,671,353
Reinsurance ceded to affiliates	51,437,776
Reinsurance ceded to non-affiliates	<u>2,375,368</u>
Total ceded	\$ <u>53,813,144</u>
Net premiums written	\$ <u>283,858,209</u>

### **Assumed**

The Company assumes business from a wide range of insurance companies and focuses a significant portion of its treaty marketing efforts on small to medium sized regional property and casualty insurers. Marketing is generally controlled by the underwriting department in conjunction with senior management. The Company advertises in business trade publications emphasizing strong capitalization and explicit support from its parent.

Premiums assumed increased 5.1% in 2006 from 2005 results. Casualty lines include professional liability, general liability and other liability. Property lines include fire, homeowners, commercial multiple peril, and auto liability.

### Ceded

In 2006, the Company retained approximately 84.1% of assumed premiums. As of December 31, 2006, the Company had two retrocessional agreements, which constituted its entire ceded reinsurance program. The Company purchases reinsurance from its parent, Toa Japan, primarily covering the property book of business. In addition, the Company purchases property catastrophe excess of loss coverage from a non-affiliated alien reinsurer which limits its net probable maximum loss from an earthquake or hurricane to less than 10% of surplus.

Effective January 1, 2006, the Company entered into a two-line surplus treaty and quota share reinsurance agreement with Toa Japan. Under this agreement, the Company cedes both the surplus share of its net retention or quota share of its gross retention on all policies, bonds, binders, and contracts of insurance or reinsurance written or assumed and classified as property or boiler and machinery (Class 1), municipal bond business (Class 2), and selected private passenger auto liability, commercial automobile liability, general liability (Class 3). Class 1 coverage provides the Company with protection up to 200% of the Company's net retention on any one program subject to a maximum cession of \$10 million. Class 2 coverage provides the Company with protection of up to 100% of the Company's net retention on any one program subject to a maximum cession of \$25 million. Class 3 coverage provides the Company with protection of up to 20% of the Company's net retention on any one policy subject to a maximum \$1 million on any one loss occurrence. This agreement was in place as of the last examination and is renewed annually.

Effective January 1, 2006, a two-layer property catastrophe excess of loss retrocessional agreement with Manulife Europe Rueckversicherungs Ltd. (Manulife Europe) limited the Company's earthquake and hurricane loss exposure on assumed property business. Under this



agreement, the first layer provides reinsurance protection of \$10 million in excess of \$20 million each occurrence. The second layer provides reinsurance protection of \$15 million in excess of \$30 million each occurrence. Both layers allowed for one full reinstatement and were 60% subscribed. The Company retained the remaining subscription percentages on both layers. The effect of this coverage limits the Company's net probable maximum loss from an earthquake or hurricane to less than 10% of surplus.

The Schedule F data contained in the Company's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions.

All reinsurance agreements reviewed were evaluated in accordance with SSAP 62 of the NAIC Accounting Practices and Procedures Manual. Each of the agreements reviewed included the required contractual clauses.

### **GROWTH OF THE COMPANY**

The following information was obtained from copies of the Company's filed Annual Statements for each year indicated with the exceptions of 2006, which was verified by examination:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards to Policyholders</u>	<u>Net Premiums Written</u>	<u>Net Income</u>
2006	\$1,369,524,260	\$964,924,999	\$404,599,261	\$283,858,209	\$39,660,642
2005	1,271,867,927	931,724,437	340,143,490	275,359,071	8,379,049
2004	1,175,960,181	845,922,882	330,037,299	282,963,874	3,315,890
2003	1,039,519,869	732,842,999	306,676,870	278,672,560	20,105,138

The Company experienced moderate growth during the period under examination:

- 31.7 % increase in admitted assets
- 31.7% increase in liabilities

- 31.9 % increase in surplus
- 1.9 % increase in net premiums written
- 97.3 % increase in net income

The surplus increased \$97,922,391 for the examination period primarily due to investment income exceeding underwriting losses and favorable reinsurance results in 2006. The slight increase in premiums earned revenue for the examination period is the result of the current competitive reinsurance environment.

### **SIGNIFICANT OPERATING RATIOS**

The NAIC Insurance Regulatory Information System (IRIS) did not designate the Company as requiring regulatory attention based on its Annual Statement filings for any of the three years under examination. In addition, the NAIC Examiner Team did not select for review any of the Annual Statements filed by the Company during the examination period.

The Company's NAIC IRIS Ratio tests were available for all years under review. During the examination period, several IRIS ratios produced "unusual values" as defined by the NAIC Examiner Team in each year under review. The following chart highlights the unusual values in each year of the examination:

<u>Year</u>	<u>Ratio</u>	<u>Ratio Description</u>	<u>Unusual Range of Values Under/Over</u>		<u>Company's Result</u>
2005	5	Two-Year Overall Operating Ratio	100.0		104.0
2005	12	Two-Year Reserve Development to Policyholder Surplus	20.0		20.0
2004	6	Investment Yield	4.5	10.0	3.4

Following is a brief description of the underlying circumstances which produced the unusual values in the Company's IRIS Ratios:

#### **Ratio 5 – Two-Year Overall Operating Ratio**

This ratio measures the profitability of the Company's business.

This unusual value noted for 2005 related primarily to the increase in the loss ratio from 90.4% in 2004 to 93.3% in 2005, the combined ratio increase from 115.6% in 2004 to 116.3% in 2005, and the marginal income from 2004 carrying over into 2005. The two-year overall operating ratio had dropped to 95% in 2006, which is below the unusual value range.

#### Ratio 12 – Two-Year Reserve Development to Policyholder Surplus

This ratio measures the estimated reserve deficiency as a percent of the second prior year's policyholder surplus based on the Company's reported loss and loss adjustment expense reported on Schedule P.

The deficiency relates primarily to management's decision in 2005 to increase the IBNR reserves for long-tail casualty lines on the 1997-2001 underwriting years. This ratio dropped to 12% in 2006 and management expects this ratio to drop further into 2007 as the long-tail claims are closed and IBNR reserves are released.

#### Ratio 6 – Investment Yield

This ratio measures the Company's yield or income on investments over a two-year period.

During 2004, the Company's investment yield was low due to the low prevailing interest rates on bonds during the year. Due to continuing low-interest bond market conditions, the NAIC lowered the unusual value ranges from 10% on the upper end and 4.5% on the lower end in 2004 to 6.5% and 3%, respectively, for 2005. As such, the Company's investment yield of 3.2% in 2005 was no longer out of range. The Company's investment yield recovered somewhat to 3.7% in 2006, but market conditions for bond returns are still below historical levels well into 2007.

The underwriting ratios presented below are on an earned-incurred basis and encompass the three-year period covered by this examination:

	<u>Amounts</u>	<u>Ratio</u>
Losses Incurred	\$638,889,496	77.0%
Loss Expenses Incurred	75,481,012	9.1%
Other Underwriting Expenses Incurred	205,823,994	24.8%
Underwriting Gain or (Loss)	<u>(90,816,787)</u>	<u>(10.9)%</u>
Premiums Earned	<u>\$829,377,715</u>	100.0%

Financial ratios calculated and published by the NAIC for each of the three years under examination were reviewed without exceptions. The Company's relevant ratios for each year under examination were as follows:

	<u>Net Loss Ratio</u>	<u>Total Expense Ratio</u>	<u>Combined Ratio</u>	<u>RBC Ratio</u>
2006	75.2%	26.1%	101.3%	415.6%
2005	93.4%	23.0%	116.4%	382.2%
2004	90.3%	25.2%	115.5%	376.0%

### **ACCOUNTS AND RECORDS**

The statutory-based financial statements of the Company are audited annually by the external accounting firm of PricewaterhouseCoopers LLP. The Company's external accounting firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the December 31, 2006, financial statements. Reports thereon are submitted to the Company's Board of Directors.

The closing balance sheet and other documents were reviewed for the purposes of this examination. A review of the adjusted trial balance as of December 31, 2006, indicated that the balances supported the financial data of the Company's 2006 annual statement.

The accounts and records reviewed during the examination included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer and accounting systems, organizational structure and the information processing structure. The Company's accounts and records are maintained in Morristown, New Jersey, and Toronto, Ontario, Canada. The Company primarily utilizes Microsoft Windows servers located in Edison and Morristown, New Jersey, and Toronto, Ontario, Canada, for processing, updating, and storing the primary records of the Company.

A high-level assessment of the IT control structure and process for the Company accounting and computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review did not reveal any material deficiencies in the Company's IT control structure.

### **FINANCIAL STATEMENTS**

The financial position of the Company as of December 31, 2006, as determined by the examination is presented in the following exhibits:

- Assets, Liabilities, Surplus and Other Funds as of December 31, 2006
- Underwriting and Investment Exhibit for the period January 1, 2006, to December 31, 2006
- Capital and Surplus Account for the period of December 31, 2003, to December 31, 2006
- Examination Financial Changes – Comparison of amounts reported by the Company and amounts determined by this examination

**Analysis of Assets**  
**As Of December 31, 2006**

	<b><u>Ledger</u></b> <b><u>Assets</u></b>	<b><u>Assets Not</u></b> <b><u>Admitted</u></b>	<b><u>Net Admitted</u></b> <b><u>Assets</u></b>	<b><u>Notes</u></b>
Bonds	\$ 883,481,736	\$	\$ 883,481,736	1
Stocks:				
Common stocks	235,311,947		235,311,947	2
Real Estate	4,369,578		4,369,578	
Cash, cash equivalents and short-term investments	37,612,129		37,612,129	
Other invested assets	19,919,719		19,919,719	
Investment income due and accrued	10,748,026		10,748,026	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	23,671,314	50,000	23,621,314	
Premiums, agents' balances and installments booked but deferred and not yet due	82,272,910		82,272,910	
Reinsurance:				
Amounts recoverable from reinsurers	18,369,765		18,369,765	
Funds held by or deposited with Reinsured companies	786,410		786,410	
Net deferred tax asset	31,515,000	14,378,000	17,137,000	
Electronic data processing equipment	692,638	81,443	611,195	
Furniture and equipment	132,330	132,330	0	
Aggregate write-ins for other than invested asset	<u>35,326,611</u>	<u>44,080</u>	<u>35,282,531</u>	3
Totals	\$ <u>1,384,210,113</u>	\$ <u>14,685,853</u>	\$ <u>1,369,524,260</u>	

**Liabilities, Surplus and Other Funds**  
**As Of December 31, 2006**

		<u>Notes</u>
Losses	\$ 671,309,162	4
Reinsurance payable on paid losses and loss adjustment expenses	17,115,239	
Loss adjustment expenses	74,565,338	4
Commissions payable, contingent commissions and other similar charges	3,348,137	
Other expenses	9,127,364	
Current taxes, licenses and fees	275,358	
Federal and foreign income taxes payable	4,734,120	
Unearned premiums	100,427,190	
Ceded reinsurance premiums payable (net of ceding commissions)	31,597,444	
Funds held by company under reinsurance treaties	50,267,749	
Provision for reinsurance	838,200	
Payable for securities	190,695	
Aggregate write-ins for liabilities	1,129,003	
Total liabilities	\$ <u>964,924,999</u>	
Common capital stock	\$ 4,000,000	
Gross paid in and contributed surplus	181,352,611	
Unassigned funds	219,246,650	
Surplus as regards policyholders	\$ <u>404,599,261</u>	
Totals	\$ <u>1,369,524,260</u>	

**Underwriting and Investment Exhibit**  
**For The Period January 1, 2006, to December 31, 2006**

<u>Underwriting Income</u>		<u>Notes</u>
Premiums earned	\$ 283,353,196	
Deductions		
Losses incurred	192,889,826	
Loss expenses incurred	20,120,743	
Other underwriting expenses incurred	74,094,987	
Total underwriting deductions	\$ <u>287,105,556</u>	
Net underwriting (loss)	<u>(3,752,360)</u>	
 <u>Investment Income</u>		
Net investment income earned	\$ 42,093,538	
Net realized capital gains or (loss)	<u>8,828,724</u>	
Net investment gain or (loss)	\$ <u>50,922,262</u>	
 <u>Other Income</u>		
Aggregate write-ins for miscellaneous expense	\$ (659,232)	
Net income before dividends and federal and foreign income taxes	46,510,670	
Federal and foreign income taxes incurred	<u>6,850,028</u>	
Net income after dividends and federal and foreign income taxes	<u>39,660,642</u>	
Net Income	\$ <u><u>39,660,642</u></u>	

**Capital and Surplus Account**  
**For The Period December 31, 2003, to December 31, 2006**

		<u>Notes</u>
Capital and surplus, December 31, 2003	\$ <u>306,676,870</u>	
Net income	\$ 51,355,581	
Change in net unrealized capital gain or (loss)	27,408,270	
Change in net unrealized foreign exchange capital gains (loss)	10,815,595	
Change in net deferred income tax	2,506,000	
Change in non-admitted assets	11,929,403	
Change in provision for reinsurance	485,000	
Dividends to stockholders	(6,000,000)	
Aggregate write-ins for gains or losses in surplus	<u>(577,458)</u>	
Change in surplus as regards policyholders for the years	<u>97,922,391</u>	
Capital and surplus, December 31, 2006	\$ <u><u>404,599,261</u></u>	

**Examination Financial Changes**

There are no financial changes based on this examination.



## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – Bonds**

The bond portfolio quality is segmented as 89.8% Class 1, 9.8% Class 2 and 0.4% Class 3. The bond portfolio composition is segmented as 21.0% U.S. government issuer obligations, 0.4% U.S. government single class asset-backed securities, 11.0% foreign government issuer obligations, 4.6% states and territories issuer obligations, 3.0% political subdivision issuer obligations, 10.8% special revenue issuer obligations, 10.7% special revenue single class asset-backed securities, 0.9% public utilities issuer obligations and 37.6% industrial and miscellaneous bonds. The bond portfolio maturity distribution is segmented as 12.9% in one year or less, 35.2% in one to five years, 35.7% in five to ten years, 9.0% in ten to twenty years and 7.2% in over twenty years.

### **NOTE 2 – Common Stocks**

The amount reported by the Company consists of \$235,301,947 in a diverse mix of publicly-traded unaffiliated common stocks and \$10,000 in the dormant affiliate Toa Re Services.

### **NOTE 3 – Aggregate write-ins for other than invested assets**

The amount reported by the Company consists of the following components: \$29,189,788 for corporate-owned life insurance, \$5,725,805 for contingent commissions receivable, \$366,938 for miscellaneous items.

### **NOTE 4 – Loss and loss adjustment expenses**

The amount reported by the Company for losses and loss adjustment expenses (LAE) at December 31, 2006, was \$671,309,162 and \$74,565,338, respectively. INS Consultants, Inc. (INS) was retained by the Delaware Department of Insurance to conduct a review of the Company's reserve methodologies and adequacy.

INS evaluated the Company's book of business by line of business for losses and LAE. The conclusions reached by INS are largely based upon information supplied by the Company's staff that included an in-depth actuarial analysis. The two reserving methods utilized in the analysis were the incurred loss development method and the Bornhuetter-Ferguson incurred method. The INS reserve review calculated Toa Re's combined net loss and loss adjustment expense to be adequate.

The INS reserve analysis was performed net of reinsurance and did not address the collectibility of reinsurance recoverables.

The underlying data was tested through a review of open and paid claim files and actual payments made with no exceptions noted. The aggregated actuarial data provided by the Company was verified and balanced to Schedule P of the Company's filed annual statement.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of a valuation date are dependent on future contingent events that cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report.

#### **COMPLIANCE WITH PRIOR REPORT OF EXAMINATION**

There were no recommendations in the prior report of examination.

#### **RECOMMENDATIONS**

There are no recommendations in this report of the current examination.

### **COMMENTS**

- (1) As of the examination date, the Company had a group rating of “A” (*Excellent*)” from A. M. Best, and “A+” (*Strong*) from Standard & Poor’s.
- (2) Toa Re retained approximately 84.1% of gross premiums written in 2006.
- (3) The INS reserve analysis found the Company’s combined loss and loss adjustment expense reserves to be adequate.
- (4) The NAIC Risk Based Capital (*RBC*) formula used to measure the amount of capital appropriate for a property and casualty insurer to support its operations was reviewed. At December 31, 2006, the Company and its subsidiaries reported a risk-based capital ratio of 415.6%.

### **CONCLUSION**

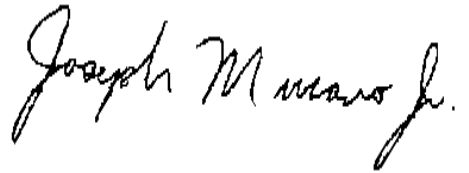
The following schedule shows the results of this examination and the results of the prior examination with changes between examination periods.

Description	12/31/06 Current Examination	12/31/03 Prior Examination	Changes Increase (Decrease)
Assets	<u>\$1,369,524,260</u>	<u>\$1,039,519,869</u>	<u>\$330,004,391</u>
Liabilities	\$964,924,999	\$761,892,999	\$203,032,000
Common capital stock	\$4,000,000	\$4,000,000	\$0
Gross paid in and contributed surplus	181,352,611	181,352,611	0
Unassigned funds (surplus)	<u>219,246,650</u>	<u>92,274,259</u>	<u>126,972,391</u>
Total capital and surplus	\$404,599,261	\$277,626,870	\$126,972,391
Totals	<u>\$1,369,524,260</u>	<u>\$1,039,519,869</u>	<u>\$330,004,391</u>

Since the last examination in 2003, the Company’s assets increased 31.7%, liabilities increased 26.6%, and capital and surplus increased 45.7%.

In addition to the undersigned, acknowledgment is made of the assistance provided by staff examiners of the Delaware Insurance Department and the Delaware Insurance Department's consulting actuarial firm, INS Consultants, Inc.

Respectfully submitted,

A handwritten signature in black ink, reading "Joseph Murano, Jr." in a cursive script.

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Joseph Murano, CFE  
Examiner-In-Charge  
State of Delaware  
Northeastern Zone, NAIC